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SENSITIVE  
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SUBJECT: KAZAKHSTAN: SCENESETTER FOR INL ASSISTANT SECRETARY DAVID  
WT. JOHNSON

ASTANA 00002110 001.3 OF 005

¶1. (U) Sensitive but unclassified. Not for public Internet.

¶2. (SBU) SUMMARY: Embassy Astana warmly welcomes your December 9 visit to Kazakhstan. Kazakhstan has proven to be an increasingly reliable security and law enforcement partner and a steady influence in a potentially turbulent region. Kazakhstan's willingness to host the Central Asia Regional Information and Coordination Center (CARICC) opening and its eagerness to train regional counter-narcotics police speak to its value as a key partner in Central Asia. END SUMMARY.

SECURITY COOPERATION AND TRANSNATIONAL CRIME

¶3. (SBU) Kazakhstan, on the crossroads of the ancient Silk Road, also finds itself on the crossroads of transnational crime. The United Nations Office of Drugs and Crime (UNODC) estimates that up to 20% of Afghan opiates transit through Kazakhstan. In addition, Kazakhstan is both a source and destination country for trafficking in persons. It could have become a center for laundering transnational criminal profits given its status as the most developed banking system and most stable economy in the region. However, the government's strong political will, new legislation based on international standards, and the creation of a financial intelligence unit have helped prevent such a development.

¶4. (SBU) Kazakhstan willingly cooperates with the United States to fight terrorism, stem the flow of illegal narcotics, and fight trafficking in persons. Law enforcement agencies recognize their limitations and continue to seek our technical assistance. The Bureau for International Narcotics and Law Enforcement Affairs (INL), the Office of Antiterrorism Assistance (ATA), and the Department of Defense's Office of Military Cooperation (OMC) provide equipment and technical assistance to law enforcement and security services in Kazakhstan.

¶5. (SBU) Kazakhstan is deeply interested in being a regional leader in law enforcement. The Central Asian Regional Information and

Coordination Center (CARICC) is based in Almaty. All countries in Central Asia, Russia, and Azerbaijan are members. The Inauguration of CARICC on December 9 will be preceded by an experts' meeting on December 8 to discuss issues of cooperation. The CARICC events will be an opportunity for Kazakhstan to showcase its international cooperation.

¶ 6. (SBU) Kazakhstan's law enforcement academies are also seeking to be regional training hubs. During your visit, the Ministry of Interior (MVD) will open its newly renovated Interagency Counter-Narcotics Training Center. The Center, co-funded by the United States and the EU's Border Management in Central Asia Program (BOMCA), will train Afghan police and will be open to all countries in the region.

¶ 7. (SBU) Kazakhstan is also eager to work with the United States to combat trafficking in persons (TIP). Kazakhstan is a Tier II country, but has faced the realities of its TIP problem and continues to seek training and technical assistance. The government has provided funding through a newly-created NGO to operate a victims' shelter in Astana. INL funded the creation of the Anti-TIP Training Center at an MVD Institute, which provides in-service training for police officers on a regular basis.

¶ 8. (SBU) Kazakhstan recently passed an anti-money laundering (AML) law and has established a financial intelligence unit (FIU). INL has worked closely with both the new FIU and the Financial Police to provide training courses. Currently, an INL-funded English-language fellow works at the Financial Police Academy with instructors and cadets. The fellow also provides training courses for the FIU. The Financial Police Academy has been eager for additional training sessions in all facets of AML and corruption. INL recently funded FBI training courses at the Academy for senior-level regional

ASTANA 00002110 002.3 OF 005

officials of the Financial Police. This year, INL also funded the travel of senior-level delegations from both the FIU, which attended a seminar at FinCEN, and the Financial Police Academy, which visited FLETC and the FBI Academy.

#### ECONOMY: AGGRESSIVE STEPS TO TACKLE ECONOMIC CRISIS

¶ 9. (SBU) Kazakhstan is Central Asia's economic powerhouse, with a GDP larger than that of the region's other four countries combined. Economic growth averaged over 9% per year during 2005-07, before dropping to 3% in 2008 with the onset of the global financial crisis. The International Monetary Fund is predicting negative 2% growth for Kazakhstan in 2009, with a modest economic recovery poised to begin in 2010. Astute macroeconomic policies and extensive economic reforms have played an important role in Kazakhstan's post-independence economic success. The government has taken significant steps to tackle the domestic reverberations of the economic crisis. It has allocated around \$20 billion to take equity stakes in private banks, propped up the construction and real estate sectors, and supported small- and medium-sized enterprises and agriculture.

¶ 10. (SBU) The banking sector continues to struggle, as Kazakhstan's leading commercial banks have been unable to repay creditors and seek to restructure their debt. In July, BTA Bank, the country's largest commercial bank, declared a moratorium on interest and principal payments. BTA's external debts are valued at \$13 billion, of which the bank said it will repay \$3 billion this year. In 2008, BTA's net losses were \$7.9 billion, and total obligations exceeded the value of its assets by \$4.9 billion. Kazakhstani authorities continue to investigate former BTA Chairman Mukhtar Ablyazov and other former top managers of the bank. On July 14, the Prosecutor General's office charged 12 members of BTA's credit committee with embezzlement. Six were found guilty and sentenced to jail. Many high-level bankers have fled the country and charges continue to pile up in the banking sector. Ablyazov fled to London, where he remains.

#### NON-PROLIFERATION: A HALLMARK OF BILATERAL COOPERATION

¶ 11. (SBU) Non-proliferation cooperation has been a hallmark of our

bilateral relationship since Kazakhstan quickly agreed to give up the nuclear weapons it inherited from the USSR after becoming independent. The Kazakhstans recently ratified a seven-year extension to the umbrella agreement for our bilateral Cooperative Threat Reduction (CTR) program, which remains the dominant component of our assistance to Kazakhstan. Key ongoing CTR program activities include our efforts to secure the radiological material at the Soviet-era Semipalatinsk nuclear test site and to provide long-term storage for the spent fuel (sufficient to fabricate 775 nuclear weapons) from Kazakhstan's BN-350 plutonium fast-breeder reactor.

¶12. (SBU) On December 1, the government of Kazakhstan initiated a dry run to finalize logistics and security planning for the transportation of spent fuel from the BN-350 fast breeder reactor in Aktau to the Baikal-1 storage facility located in the Semipalatinsk Test Site. As part of this Cooperative Threat Reduction project, Kazakhstan is responsible for funding the actual transportation of the spent fuel, which it has committed to complete before the end of ¶2010. 12 train-loads of five railcars each will transport the 300 metric tons of spent fuel from the reactor to the storage facility constructed by the U.S. government. Property tax liability for technical assistance recipients has been a long-term obstacle for completing the project. However, the Kazakhstani government is working on a series of decrees that would authorize tax-free equipment transfer. Kazakhstani funding of the transport of the fuel has also been problematic, as the transport operations are initiated during a time of severe budget cuts taken to deal with the global financial crisis. While an emergency decree freeing enough money for two transport runs was finally issued in September, it

ASTANA 00002110 003.3 OF 005

came too late in the year to obligate. As such, we remain concerned that the current level of 2010 funding will not be enough to handle all 12 sorties.

¶13. (SBU) The Kazakhstans are active participants in the Global Initiative to Combat Nuclear Terrorism and are seeking additional ways to help them burnish their non-proliferation credentials. We have welcomed President Nazarbayev's April 6 announcement that Kazakhstan is interested in hosting the Nuclear Threat Initiative's IAEA-administered international nuclear fuel bank. During his October 6-8 visit to Kazakhstan, Deputy Secretary of Energy Daniel Poneman assured the Kazakhstani government that we will support their proposal although we have been clear that the Kazakhstans need to work out the technical details directly with the IAEA. President Nazarbayev also has called for the United Nations to designate August 29 as annual World Non-Nuclear Testing Day, and he plans to personally attend the Global Nuclear Security Summit in Washington in April 2010.

#### AFGHANISTAN: POISED TO DO EVEN MORE

¶14. (SBU) Kazakhstan has supported our stabilization and reconstruction efforts in Afghanistan, and in recent months, has expressed a willingness to do even more. We signed a bilateral blanket over-flight agreement with Kazakhstan in 2001 that allows U.S. military aircraft supporting Operation Enduring Freedom (OEF) to transit Kazakhstani airspace cost-free. Kazakhstan followed this in 2002 with a bilateral divert agreement that permits our military aircraft to make emergency landings in Kazakhstan when aircraft emergencies or weather conditions do not permit landing at Kyrgyzstan's Manas Air Base. There have been over 6500 over-flights and over 60 diverts since these agreements went into effect. In January, Kazakhstan agreed to participate in the Northern Distribution Network (NDN) -- which entails commercial shipment through Kazakhstani territory of non-lethal supplies for U.S. troops in Afghanistan. Kazakhstan is working on sending several staff officers to the International Security Assistance Forces (ISAF) headquarters in Kabul and, further down the road, might consider providing small-scale non-combat military support, as it did for five-plus years in Iraq.

¶15. (SBU) In 2008, the Kazakhstani government provided approximately \$3 million in assistance to Afghanistan for food and seed aid and to construct a hospital, school, and road. In November, the Kazakhstani Foreign Ministers signed in Kabul a \$50

million intergovernmental education agreement for Kazakhstan to train 1,000 Afghan specialists in five years. The government has also offered to provide training to Afghan law enforcement officers at law enforcement training institutes in Kazakhstan. Kazakhstan's Border Guard Service is ready to allow Afghan cadets to attend its full four-year academy as soon as the appropriate bilateral agreements are signed. The Kazakhstani intend to make Afghanistan one of their priority issues during their 2010 chairmanship of the Organization for Security and Cooperation in Europe (OSCE).

DEMOCRACY: SLOW GOING

¶16. (SBU) While the Kazakhstani government articulates a strategic vision of democracy, it has lagged on the implementation front. President Nazarbayev's Nur Otan party officially received 88% of the vote and won all the parliamentary seats in August 2007 elections which OSCE observers concluded did not meet OSCE standards. The next parliamentary and presidential elections are scheduled for 2012 although rumors of early parliamentary elections are intensifying.

¶17. (SBU) Kazakhstan will become Chairman of the OSCE on January 1. At the recent Athens Ministerial, State Secretary-Foreign Minister Saudabayev asserted that Kazakhstan will unwaveringly uphold principles of OSCE. When OSCE ministers accepted Kazakhstan's bid to chair the organization in 2007, Kazakhstan committed to uphold

ASTANA 00002110 004.3 OF 005

the current mandate of the OSCE Office for Democratic Institutions and Human Rights (ODIHR), support the Human Dimension, and initiate domestic electoral, media, and political party reforms by the end of ¶2008. President Nazarbayev signed the amendments into law in February. While key civil society leaders were disappointed that the new legislation did not go further, we considered it to be a step in the right direction and continue to urge the government to follow through with additional reforms.

¶18. (SBU) On September 3, the Balkash district court near Kazakhstan's largest city, Almaty, sentenced The country's leading human rights activist Yevgeniy Zhovtis to four years imprisonment for vehicular manslaughter, and the appeals court upheld this decision on October 20. On the request of the defense, a judicial panel is currently reviewing the decision. The conviction stemmed from a July 26 accident in which Zhovtis struck and killed a pedestrian with his car. Local and international civil society representatives and opposition activists heavily criticized the trial for numerous procedural violations. Some observers allege that the harsh sentence imposed on Zhovtis, a strong critic of the regime, was politically motivated. The Ambassador has publicly urged the Kazakhstani authorities to provide Zhovtis access to fair legal proceedings, the Embassy issued a statement on October 22 expressing concern about the process following the appeal decision, and we continue to raise the case with senior government officials in Astana and in Washington.

¶19. (SBU) While the Kazakhstani pride themselves on their religious tolerance, religious groups not traditional to Kazakhstan, such as Evangelical Protestants, Jehovah's Witnesses, Hare Krishnas, and Scientologists, have faced difficulties with the authorities. Parliament passed legislation in late 2008 aimed at asserting more government control over these "non-traditional" religious groups. Following concerns raised by civil society and the international community, President Nazarbayev chose not to sign the legislation, but instead sent it for review to the Constitutional Council -- which ultimately declared it to be unconstitutional.

¶20. (SBU) Though Kazakhstan's diverse print media include many newspapers sharply critical of the government and of President Nazarbayev personally, the broadcast media are essentially government-controlled. On July 10, President Nazarbayev signed into law Internet legislation which provides a legal basis for the government to shut down and block websites whose content allegedly violates the country's laws. On October 22, a Kazakhstani appeals court upheld the Editor-in-Chief of "Alma Ata Info" newspaper's August 8 sentence to three years in prison for publishing confidential internal documents of the Committee for National Security (KNB). In addition, the courts have levied

disproportionately large fines for libel against two opposition newspapers over the past year, forcing one paper to close while another is still fighting the case through appeals. These appear to be steps in the wrong direction at a time when Kazakhstan's record on democracy and human rights is in the spotlight because of its forthcoming OSCE chairmanship. We have expressed our disappointment about the Internet legislation and libel regime, and have urged the government to implement the Internet law in a manner consistent with Kazakhstan's OSCE commitments on freedom of speech and freedom of the press.

#### OIL AND GAS PRODUCTION

¶21. (SBU) Kazakhstan produced 70.7 million tons of oil in 2008 (approximately 1.41 million barrels per day (bpd), and is expected to become one of the world's top ten crude oil exporters soon after 2015. From January - August, Kazakhstan increased oil production by 8.8%, to 41.83 million tons, compared to the same period last year. U.S. companies -- ExxonMobil, Chevron, and ConocoPhillips -- have significant ownership stakes in each of Kazakhstan's three major hydrocarbon projects: Tengiz, Kashagan, and Karachaganak.

ASTANA 00002110 005.3 OF 005

¶22. (SBU) While Kazakhstan has significant gas reserves (2.0 trillion cubic meters is a low-end estimate), current gas exports are less than 10 billion cubic meters (bcm), in part because gas is being reinjected to maximize crude output, and in part because Gazprom, which has a monopoly on the gas market in the region, pays producers only a fraction of the going European price. The country's 40 bcm gas pipeline to China will help to break that monopoly, although the majority of the gas that will be exported via this pipeline will come from Turkmenistan and Uzbekistan, not Kazakhstan. The first line of the China gas pipeline was completed in July, and the first shipments are planned in November. Kazakhstani gas exports to China will be modest, 4-6 bcm annually. The government of Kazakhstan has made several public statements confirming that it has no objection to the Nabucco gas pipeline project, but the government has emphasized that Kazakhstan does not and will not produce enough gas to supply the pipeline.

#### OIL AND GAS TRANSPORTATION

¶23. (SBU) With significant oil production increases on the horizon, Kazakhstan must develop additional transport routes to bring its crude to market. Our policy is to encourage Kazakhstan to seek diverse transport routes, which will ensure the country's independence from transport monopolists. Currently, most of Kazakhstan's crude is exported via Russia, although some exports flow east to China, west across the Caspian through Azerbaijan, and south across the Caspian to Iran. In July, for example, national oil company KazMunaiGaz (KMG) announced the completion of the Atasu-Alashankou segment, and it recently began pilot crude shipments via the Kenkiyak-Kumkol segment of the 3,000 kilometer oil pipeline to China, which will initially carry 200,000 bpd, with expansion capacity of 400,000 bpd.

¶24. (SBU) We support the expansion of the Caspian Pipeline Consortium (CPC) pipeline, which is the only oil pipeline crossing Russian territory that is not entirely owned and controlled by the Russian government. We also support implementation of the Kazakhstan Caspian Transport System (KCTS), which envisions a "virtual pipeline" of tankers transporting up to one million barrels of crude per day from Kazakhstan's Caspian coast to Baku, from where it will flow onward to market through Georgia, including through the Baku-Tbilisi-Ceyhan (BTC) pipeline. Negotiations with international oil companies to build the onshore pipeline and offshore marine infrastructure for this \$3 billion project have recently stalled, although the government has expressed an interest in resuming talks.

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